

Internal Revenue Service

Department of the Treasury

Examinations

1100 Commerce Street, Dallas, TX 75242

Person to Contact:

Contact Telephone Number:

In Reply Refer to:

Date: FEB 5 2001

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code and have determined that you do not qualify for exemption under that section. Our reasons for this conclusion and the facts on which it is based are explained below.

You incorporated in [REDACTED] to be organized exclusively for charitable, religious and educational purposes, including for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code.

You originally submitted Form 1023 requesting to be classified as a church. In describing your activities, you stated, "The overall purpose is to foster and promote spiritual growth and development. Weekly discussion groups will comprise [REDACTED] % of the activity".

In response to our letter dated [REDACTED], you submitted Form 1024. Page 2 of Form 1024 stated, "[REDACTED] is a resource center for individuals seeking to deepen and strengthen their walks with God. [REDACTED] has been meeting as a small discussion group. Its members are bound together by a common objective, and that such common objective is directed towards pleasure, recreation, and other nonprofitable purposes. At the [REDACTED] one will find the existence of personal contact, commingling, and fellowship among members. [REDACTED] for living operates as a dinner club which provides a meeting place, library, and dining for members."

Question 7 on Page 3 of Form 1024 stated, "Any individual regardless of race, creed, or color who is seeking to deepen and strengthen their walk with God can be a member." In addition, your letter dated [REDACTED] stated, "There is no membership requirement, per se."

Your letter dated [REDACTED], states, "The number of persons attending each Sunday is [REDACTED]. Attendees are interested in advanced study of the Word of God from a Christian perspective. There is no cost to attendees and no dues are required. The



[REDACTED]  
Institute for Living meets regularly for a dinner meeting at which time they discuss advanced Christian topics."

[REDACTED] has funded the organization. Expenditures of your income are for business lunches and snacks.

Section 501 (c)(7) of the Internal Revenue Code provides for exemption for clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1 of the Income Tax Regulations provides that, in general, this exemption extends to social and recreational clubs, which is supported solely by membership fees and assessments. A club which engages in business, such as making its social and recreational facilities available to the general public or selling products and merchandise is not organized and operated exclusively for pleasure and recreational purposes.

Section 1.501(c)(7) of the Income Tax Regulations provides as follows:

The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other non profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs, which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenues from members through the use of club facilities or in connection with club activities.

A club which engages in business, such as making its social and recreational facilities available to the general public - is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes.

Public Law 94-568 as explained in Senate Report No. 94-1318, published in Cumulative Bulletin 1976-2, page 597, provides that a club, exempt from taxation and described in section 501 (c)(7), is permitted to receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmember use of its facilities or services, so long as the latter does not represent more than 15 percent of the total receipts. It is further stated that if an organization exceeds these limits, all of the facts and circumstances must be considered in determining whether the organization qualifies for exempt status.

You stated that there are no membership requirements. You do not have any prerequisite conditions or limitations imposed on member. Therefore, your organization does not possess any identity of purpose, which would characterize it as a club.



Revenue Ruling 69-527, Cumulative Bulletin 1969-2, page 125 held that a social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings did not qualify for exemption under section 501(c)(7) of the Code. The rationale in this case was that luncheon meetings were merely incidental to the business activities of the organization. Thus, it was not organized and operated exclusively to serve the pleasure, recreation, or other similar social purposes of its members.

Based on the information provided, anyone from the public can participate in your activities but there are no efforts to attract individuals beyond the [REDACTED] people who attend your "dinner meeting". The primary purpose of your organization is for a "small group" of individuals to meet for dinner to discuss the [REDACTED] topics of interest.

Based upon the cited precedence, your organization is similar to the one described in the above revenue ruling in that you do not have an organized social and recreational program.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(7) of the Code. In accordance with this determination, you are required to file Federal income tax returns on Form 1120.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax authorization with us.

If you don't appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination on this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.



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[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

*Steven T. Miller*

Steven T. Miller  
Director, Exempt Organizations

Enclosure: Publication 892  
Envelope